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SUBJECT: Ruby Trade in China: Opaque at Best

REF: A) STATE 127059

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**¶1.** (SBU) This is a preliminary response to REF A request for  
information on the ruby trade in China.

SUMMARY: Burmese rubies apparently are entering China primarily via "walk across" trade at the Burma-China border as well as through other intermediaries, primarily Thailand. The ruby trade is lightly regulated, if at all, by the Chinese government, documentation of the authenticity of rubies sold in China is optional, and origin testing for rubies is not widely used. Trade volume numbers are not readily available. MOFCOM reluctance to speak to embassy on this issue, as well as preliminary information gathered, suggests there would be significant challenges to establishing a reliable and verifiable chain of custody for rubies in China. END SUMMARY.

**¶2.** (SBU) In response to STATE 127059, AmEmbassy Beijing officers interviewed, over the period of December 12 to December 19, local ruby sellers, ranging from small vendors to high-end jewelry shops, industry association representatives, PRC government officials, and gem experts to gather information on the ruby trade detailed below. ConGens Chengdu and Guangzhou also contributed substantially to this report. Information from AmEmbassy Rangoon is also included to provide supporting context.

#### Import Sources and Origin of Rubies

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**¶3.** (SBU) Vice-Secretary-General of the Gems and Jewelry Trade Association of China (GAC), Yu Xiaojin, and the Vice-Director of the National Gemstone Testing Center of China (NGTC), Ke Jie, told emboffs that most of the rubies imported into China come from Thailand. Neither was willing to venture an estimate of total import volumes of rubies, besides saying that the market for rubies in China is "very small." In addition, ConGen Guangzhou reported that a manager at the Guangdong Provincial Gem and Precious Metal Testing Centre as well as the owners of two jewelry companies operating in Guangzhou estimate that 90 percent of colored gems imported into China are from Thailand. Again, the sources were not able to put a number on ruby imports into China. Mr. Yu also noted that most of the rubies imported into China are not accompanied by certificates of origin, so it is difficult to say conclusively whether rubies are mined in Thailand, for example, or simply cut and polished there.

**¶4.** (SBU) Emboffs' sampling of five small retail jewelry shops in Beijing showed that rubies sold in the local market are tagged as Burmese, Vietnamese, Thai, and Sri Lankan. Amembassy Rangoon notes that gems and jade "walk" across the Burmese border into China and Thailand, but says that there is no way to estimate how many move

annually in this way. Amembassy Rangoon also advises that there are indications that usually lesser quality stones are walked across the border, and high quality stones are seized inside Burma by the Government of Burma and sold at official GOB auctions that take place several times per year. (Note: Embassy Rangoon is clearly better placed to comment on the other side of the trade, we share this information here only to help put the Chinese information in context. End note.) One local Beijing vendor even acknowledged that the rubies in his store were purchased at a Burmese auction and carried into China's Yunnan province by the shop owner without passing through any customs unit or administrative body. According to ConGen Chengdu, conditions along the Burma-China border are well suited to foster high levels of unregulated trade between the two countries.

¶5. (SBU) ConGen Guangzhou also highlights an October 2008 online article from Mizzima News stating that, "Despite the US embargo, Burma's military junta earlier this month held a gem exhibition in Rangoon, which generated more than USD 172 million. The sale drew 2648 gem merchants from nearly a dozen countries, including China, Thailand, Japan and Canada." In addition, Guangzhou congenoffs recall seeing a Burmese Times article from October 2008 claiming that of the 2,648 gem merchants at the gem exhibition, 2,200 were Chinese.

Chain of Custody - Report from ConGen Chengdu

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¶6. (SBU) ConGen Chengdu advises that shop workers in the free trade zone on the Burma-China border near the Chinese town of Ruili say that nearly all the precious stones from Burma sold there first go to the Guangzhou area in the Chinese province of Guangdong for processing and then come back to Ruili for sale. (Note: Processing

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refers to designing the setting for the gem and completing the piece of jewelry. It does not include cutting and polishing of the stone. End note.) Shop owners in Ruili say that many Chinese come to the border to buy gemstone jewelry so they can feel more assured that they are not getting fake gems. Even customers from Guangzhou travel to Ruili to buy Burmese stones that just came back from polishing in Guangzhou. ConGen Chengdu speculates that such buyers -- who arrive by bus -- are tourists, as business owners and industry insiders might know that the stones can be purchased in Guangzhou and that the trip to Ruili is unnecessary. ( Note: interviewees in Ruili did not specify a specific pattern for rubies, but referred to all colored gemstones. End note.)

Chain of Custody - Report from ConGen Guangzhou

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¶7. (SBU) Like ConGen Chengdu, ConGen Guangzhou also reports that many gems go to Guangzhou for processing. When asked by Congenoffs about how colored gems arrived at Guangzhou processing centers, the processing industry contacts said they were not sure, as the shipping arrangements and customs clearances were usually handled by the suppliers. The manager of the Guangdong Provincial Gem and Precious Metal Testing Centre said rubies must be declared to customs and duties must be paid in China. Mr. Li Chaoran, Executive Vice Chair of the GZ Jewelry Association, told Congenoffs that normally the rubies were carried by suitcase, but the buyers almost never ask how the rubies are imported, in order perhaps to avoid learning they are stolen gems. (Note: Mr. Li would not specify where the rubies are arriving from via suitcase).

¶8. (SBU) Guangzhou industry contacts also report that even if the gems are originally from Burma, they are shipped first to Bangkok for cutting and polishing, then sent to Guangzhou for processing. These sources also advise that most rubies are tagged in the place they are polished and cut as originating there. Therefore, it is difficult from here to verify that the estimated 90 percent of rubies coming into China from Thailand are actually mined in Thailand. (Comment: Some portion of Thai-tagged gems that enter the Chinese market are likely Burmese. End comment.) Guangzhou contacts said that technically there is no way to tell where rubies are from, and in practice, suppliers in Thailand label origin only for a few high-quality, large gems. These contacts say it is not worth it to mark or certify the origins of the far more numerous, small gems.

¶9. (SBU) A ruby vendor in Guangzhou also added that there are many hai uppies located in Guangzhou that are able to cut and polish the rubies there. The vendor said that sellers in the Guangzhou processing centers get many of their gems from Bangkok via Hong Kong, which helps them avoid duties and taxes. The contact did not elaborate on the customs requirements for importing rubies into China.

Processing Centers Outside Guangzhou

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¶10. (SBU) ConGen Guangzhou reports that industry representatives in the area say there are two other major processing centers in Guangdong Province -- Shenzhen, which primarily serves the domestic market, and Panyu, which primarily serves the international market. These contacts said many of the gems processed in Shenzhen are shipped to department stores in northern China.

¶11. (SBU) According to Mr. Yu at the GAC, another major processing center is located in the Chinese Province of Guangxi. However, industry reports Mr. Yu has seen indicate that rubies polished in Guangxi come from Vietnam and Thailand and are of lesser quality than those from Burma.

Certification of Authenticity and Proof of Origin

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¶12. (SBU) When asked by emboffs to show certificates of origin for rubies on display, one Beijing vendor claiming to sell only Burmese rubies said he did not have certificates of origin for his merchandise, but averred that the origin of the rubies could be determined by examining the gems with the naked eye. He claimed that those with the deep "pigeon's blood" red color or those rubies that have a visible white colored star inside the gem are the supposed marks of a natural Burmese ruby. (Note: According to industry experts in Beijing, unless you are a gemologist, it is very difficult to tell Burmese rubies and jade from that of other countries. End note.) Mr. Yu from the GAC stated that most customers in China do not ask about the origin of the rubies they buy, so certificates of origin are not sought by ruby dealers. In addition, a Taiwanese industry contact who owns a jewelry processing factory in Fuzhou says that when his company buys rubies, he only

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looks at the quality and not the source of the gem. However, some local vendors in Beijing agree that Burmese rubies are the best quality.

¶13. (SBU) Despite not having certificates on hand to prove origin, many Chinese ruby dealers obtain a "certificate of authenticity" issued in China for the gems they sell in their shops. These domestically-issued certificates state that the gem is authentic, give the color and size of the gem, and list serial numbers to identify each gem. The origin of the stone is not listed on the domestic certificates of authenticity. According to Mr. Yu, 70 percent of these domestic certificates are issued by the NGTC, which falls under the authority of the Chinese Ministry of Land and Resources (MLR), but is under direct supervision of the PRC Administration of Quality, Supervision, Inspection, and Quarantine (AQSIQ). (Note: MLR and AQSIQ are bureaucratically separate entities. End note.)

¶14. (SBU) Another laboratory that is widely used in China is the National Jewelry Quality Supervision and Inspection Center. Vice-Director of the NGTC, Ke Jie, told us there are less than 100 labs in China that can offer legitimate authentication certificates for colored gems, and all of these labs are supposed to be monitored by the AQSIQ. However, when ConGen Guangzhou spoke to the manager of the Guangdong Provincial Gem and Precious Metal Testing Centre, he stated that his lab is "affiliated" with the government. According to this contact, each province has its own testing centers that are not government-owned, which he described as "service providers, or trustees, that provide objectivity for the testing process." Asked if his lab was regulated by AQSIQ, he said it was affiliated with Guangdong Technical Supervision Bureau of Guangdong Provincial

Government. He added that the testing market is competitive and vendors and suppliers can choose different testing centers.

¶15. (SBU) The domestically-produced certificates generally cost RMB 50, according to Vice-Director Ke, and the revenue generated from the cost of certification supports the operating expenses of the labs, "much like nonprofits in the U.S." Ke said domestic certificates are not required in order to sell rubies in China, but she believes it is better for business to obtain these certificates, as customers generally ask about them.

¶16. (SBU) In Beijing, every vendor Emboffs visited produced a domestic certificate of authenticity for each of their rubies on display, but each vendor showed a certificate from a different Chinese institution, and one of the five vendors had a certificate issued by the NGTC. Vice-Director Ke estimates that 70 percent of the gems the NGTC certifies per year are diamonds, 20 percent are jade, and the remaining 10 percent are colored gems. She would not estimate how many rubies the NGTC certifies each year. Ke noted that the NGTC does not typically perform gem origin testing, but can do it in special circumstances when the gem in question is potentially of great value.

¶17. (SBU) In addition to the above described domestic certificates, some higher-end Beijing stores have international certificates ostensibly issued by GemResearch SwissLab (GRS). These certificates allegedly verify the authenticity of their rubies. (Note: The closest GRS lab is located in Thailand. End note.) The GRS certificates Emboffs saw in local high-end stores did not show origin. However, the Geological Museum of China in Beijing does have GRS certificates showing the probable origin of some of the stones on display. Vice Secretary-General Yu, who also works at the Geological Museum of China, confirmed that when he asks for a GRS certificate for a museum stone, he requests GRS include the probable origin of the gem on the certificate, for which GRS laboratories test. He went on to add that most Chinese ruby dealers request that the origin information not be included on GRS certificates, although it does not cost any additional amount to include this information. (Comment: In the case of rubies, we would speculate this is done to allow dealers to misrepresent gems as the more highly-valued "Burmese rubies." End comment.)

#### PRC Government Involvement

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¶18. (SBU) Aside from the testing centers' affiliation with government agencies, it is difficult to obtain information about Chinese government involvement with the ruby industry. For example, when asked about reporting rubies to Customs, some vendors in Beijing said their stores do not need to register the rubies with Customs when the rubies are imported. Some avoided the question entirely. Contacts in the industry indicated that the market for rubies in China is so small that the government simply does not care about regulating it. Mr. Yu from the GAC speculated that 95 percent

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of the jewelry market in China is jade and jadeite, and that rubies only make up approximately 3 percent of the remaining 5 percent of the overall market.

¶19. (SBU) Ms. Dang Yingjie, Director of Bilateral Relations for China's General Administration of Customs, told Embassy Customs Officer that China's Free Trade Agreement with ASEAN requires that importers pay a 5 percent tariff for rubies coming into China. As of January 1, 2009, however, this tariff will be eliminated. According to the law, all gems should be declared at the place of entry into China, with the duty payable online or in cash. Ms. Dang said that the revenue from this duty goes to the PRC central government, but gave no further information about what specific agencies receive the funds. Ms. Dang Yingjie stated that the Chinese government does not tax anything beyond the 5 percent (soon to expire) stipulated by the ASEAN FTA.

¶20. (SBU) Exploration of the PRC General Administration of Customs website, [www.customs.gov.cn](http://www.customs.gov.cn), revealed that no import statistics for jewelry is available, and jewelry is not on the list of Major

Commodities Imported into China. However, 2006, 2007 and 2008 export statistics available on the website show that the list of Major Commodities Exported out of China has a category called "Precious Metals and Jewelry." It shows that the aggregate export amount for this category in November 2006 was 678,264 kilograms, which was an 8.2 percent increase from November 2005. In November 2007, the aggregate export amount of "Precious Metals and Jewelry" was 714,865 kilograms, an increase of 5.4 percent from November 2006. As of November 2008, 599,698 kilograms was exported, which the website estimates is a drop of 16.1 percent from November 2007. Export countries are not listed on the website. This category does not break out diamonds, high-value pearls, or any other gems.

¶21. (SBU) Rubies are not listed on AQSIQ's "Catalogue of Commodities Subject to Inspection and Quarantine," but diamonds and high-value pearls are.

#### MOFCOM Initial Response Unfavorable

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¶22. (SBU) On November 4, Emboffs faxed a summary of the 2008 Block Burmese JADE Act to Mr. Du Shuang at MOFCOM's U.S. Desk. Embassy also sought comments on the act from Mr. Wang Xu, Director of the U.S. Desk. MOFCOM did not respond to several follow-up phone calls and emails. On December 17, a local Economic Specialist in the Economic Section finally reached Mr. Wang on the phone. Mr. Wang advised he had already forwarded the JADE Act information to the "appropriate MOFCOM offices," in particular to MOFCOM's WTO Department. He noted that the WTO department at MOFCOM believed the JADE Act was WTO non-compliant. Embassy will follow up further with MOFCOM.

#### Export Markets

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¶23. (SBU) According to Mr. Yu at the GAC, rubies finished in China tend to stay in the Chinese market. He notes that Thailand has a much bigger export market because their polishing, cutting, and processing are more advanced. When asked to describe their clientele, one small Beijing ruby vendor said that mostly Americans look for Burmese rubies in China in order to take the rubies to the U.S. and sell them at a much higher price. In addition, according to ConGen Guangzhou industry contacts, U.S. and European companies are the two biggest customers at the Panyu processing center.

#### Challenges to Establishing Chain of Custody for Rubies

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¶24. (SBU) Emboffs also met with the Director of the Division of Rules of Origin at the PRC General Administration of Quality, Supervision, Inspection, and Quarantine (AQSIQ), Kang Yuyan, to learn more about how China implements the Kimberley Process Certification Scheme (KPCS). AQSIQ implements KPCS in China. Most of the work is done by 26 local China Inspection and Quarantine Offices, or "CIOs," located throughout the country, which do on-site inspections of shipments of rough diamonds. Kang said each inspection includes a thorough review of the documentation filed by the exporting country and verification that the package of rough stones matches in detail an accompanying KP certificate. CIOs do not have instruments to check the origin of stones, nor is it required to do this in order to issue a PRC Release Note for the package of rough diamonds. China does issue official Certificates of Origin, but does so by inspecting the shipment for tampering and the documents accompanying the shipment. Ms. Kang noted that since China only trades rough diamonds with countries that participate in

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the Kimberley Process, the documents from the exporting countries can be trusted. (Note: If the CIOs, responsible for the enforcement of the Kimberley Process in China, do not have instruments or expertise to test the origins of rough diamonds, it is likely that even if it wanted to, the Chinese government would not be able to implement origin testing of gems at customs sites. The NGTC, however, does have the limited ability to perform origin tests. End note.)

¶25. (SBU) When asked about the possibilities to establish a paper trail for rubies entering and leaving China, Ms. Kang responded that the Kimberley Process was very costly to implement in China. The importers and exporters of rough diamonds pay administrative fees for the applications and certificates, but she said the Chinese government shoulders a majority of the costs associated with the process.

¶26. (SBU) Ms. Kang also pointed out that there is no international structure to facilitate Chinese regulation of the ruby trade. She averred that it would probably require a UN resolution or a similar mandate to build a Kimberley Process-like structure to effectively regulate the ruby trade.

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